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#824
REPLY TO:
Auditor General
Comptroller, USAF
Eastern District
Liaison Officer
P.O. Box 8155
S.W. Station
Washington, D.C.

31 October 1961

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SUBJECT: Report on Review of Special Overhead Rate Applicable to LMSC Employees at [redacted]

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TO : Contracting Officer

A current review has been made of the composition and application of the formula developed by the Air Force Resident Auditor at Lockheed, Sunnyvale to arrive at a special overhead rate applicable to those Lockheed employees assigned to [redacted] who work directly on contracts handled there. The purpose of this special rate is to eliminate from the full Sunnyvale overhead rate the types of ordinarily indirect expenses which, on these contracts, are charged direct because of the security set up. Applications of the formula have resulted in the following rates based on direct labor hours:

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	Full Sunnyvale Negotiated Rate	Formula Exclusions	Special Rate
Year 1959	[redacted]		
Year 1960			
(Year 1961 (Provisional)			

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The most recent review made by the AFRA was in May 1961, just prior to his departure by transfer to another location. This dealt with the establishment of the above provisional billing rate for Calendar Year 1961. The Audit files and data pertaining to this and prior periods were all reviewed by the undersigned and found to be acceptable. Many of the allocations and adjustments involved in the formula and its application are necessarily made on an arbitrary basis as they represent the best estimates of the extent to which our projects participate in the overhead expense pools at Sunnyvale based upon negotiations conducted between the AFRA and Contractor representatives. It is my opinion that the rates are very favorable to our projects. The Contractor does not suffer from the use of these low rates because the project direct labor hours and overhead are treated as exclusions from the Sunnyvale total direct hours base and overhead expense pool

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respectively, and the remaining direct hours and overhead pool provide the basis for application to other Government contracts performed at Sunnyvale.

A current computation for the period 1 January thru 30 June 1961, using the accepted formula, indicates the rate is running at [redacted] hour. Based on a discussion with [redacted], the Contractor would be agreeable to allowing the special overhead rate to remain fixed at [redacted] per hour, unless the actual rate should drop below [redacted] and we should request a revision. This is because of the arbitrary nature of the formula and the fact that any variance between actual and fixed rate would be absorbed by other Government contracts. Therefore, in the absence of any significant changes in the operations at [redacted] a continuation of the [redacted] rate is recommended.

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[redacted]

Audit Liaison Officer
Eastern District
Auditor General

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